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In the Supreme Court of the United States

OCTOBER TERM, 1971

No. 71-72-24

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[redacted],

KOPPERS COMPANY, INC.,
Petitioner,

vs.

A. BATTLE RODES, Trustee of Tennessee Central Railway Company, *et al.*,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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INDEX

Opinions Below 1
Jurisdiction 2
Questions Presented 2
Statutes Involved 3
Statement of the Case 3
Reasons for Granting the Writ 5
Conclusion 8

Appendix—

Pertinent Statutory Provisions A1
Order of U. S. District Court, Middle District of Tennessee A3

Citations

Cases

Mercantile Trust Co. v. *Tennessee Central Ry.*, 286 F. 425 (1922) 6
Southern R.R. v. *Flournoy*, 301 F.2d 847 (4th Cir. 1962) 4

Statutes

R.S. §3466 (31 U.S.C. §191) 2, 5, 6, 7, A1
Bankruptcy Act §77(b) (11 U.S.C. 205(b)) 3, 5, A1
Tenn. Code Ann. §§65-1011, -1013, -1016, -1021 (1956) 3, 4, 5, 6, A1-A3

Texts

4 Collier on Bankruptcy, §67.20, pp. 213-14 6
5 Collier on Bankruptcy, §77.21, p. 569 6

In the Supreme Court of the United States

OCTOBER TERM, 1971

No. 71-.....

IN THE MATTER OF TENNESSEE CENTRAL RAILWAY COMPANY,
Debtor,
KOPPERS COMPANY, INC.,
Petitioner,

vs.

A. BATTLE RODES, Trustee of Tennessee Central Railway Company, *et al.*,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petitioner prays that a writ of certiorari issue to review the judgments of the United States Court of Appeals for the Sixth Circuit entered in the above case on February 2, 1972. A timely petition for rehearing was denied on April 4, 1972.

OPINIONS BELOW

The opinion of the Court of Appeals and the opinion of Judge Paul C. Weick dissenting from the denial of rehearing have not been reported officially as of this date; however, they are set out in the Appendix of petition No. 71-....., filed by Petitioner LOUISVILLE AND NASH-

VILLE RAILROAD COMPANY, *et al.*, in the same MATTER, at pages A-1 and A-16 respectively. The opinion of the District Court is set out in the Appendix of petition No. 71-..... at page A-21, and is reported at 316 F.Supp. 1103. The judgment of the District Court is set out in the Appendix of petition No. 71-..... at page A-47.

JURISDICTION

The opinion and order of the Court of Appeals for the Sixth Circuit was entered on February 2, 1972 and is contained in the Appendix of petition No. 71-..... at page A-1. A timely petition for rehearing was denied on April 4, 1972 and copies thereof are appended to petition No. 71-..... at page A-53. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

QUESTIONS PRESENTED

1. Did the repeal, in the Reorganization Act of 1966,[1] of 15 U.S.C. §603, which expressly denied governmental priority under R.S. 3466 to RFC loans of the type herein involved, nine years after the abolition of the RFC[2] and transfer of RFC notes to the Secretary of the Treasury, suddenly create for the United States a priority status which they had not enjoyed before on RFC notes?

2. Is R.S. 3466 (31 U.S.C. §191) applicable to the essentially equitable railroad reorganization proceedings under §77 of the Bankruptcy Act?

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1. Pub. L, 89-554, §8 (a) (Schedule of Laws repealed), Sept. 6, 1966, 80 Stat. 378 (Recodification of Title 5).

2. Reorganization Plan No. 1, 1957, June 30, 1957, 22 F.R. 4633, 71 Stat. 647.

3. A third question was pretermitted by the Court of Appeals:[3]

> Are claims of creditors occurring within six months before institution of reorganization proceedings under §77 accorded priority in such proceedings under equitable principles, ahead of mortgagee claims, irrespective of whether or not there was diversion of current income?

4. Is this Petitioner's lien which is granted by Tennessee Statutes (Tenn. Code Ann. §§65-1011, -1013, -1016, -1021 (1964)) superior to the mortgage lien of the United States?

STATUTES INVOLVED

The pertinent section of §77 of the National Bankruptcy Act (11 U.S.C. §205); R.S. 3466 (31 U.S.C. §191); 15 U.S.C. §603; the pertinent sections of Reorganization Plan No. 1 of 1957, effective June 30, 1957, 22 F.R. 4633, 71 Stat. 647; and Tennessee Statutes §65-1011, -1013, -1016, -1021. Section 77 (b) of the Bankruptcy Act (11 U.S.C. 205(b)), R.S. §3466 (11 U.S.C. §191) and the Tennessee statutes are set forth in this Petitioner's Appendix, pages A1-A3. The remaining statutes involved are set forth in the Appendix of petition No. 71-.....

STATEMENT OF THE CASE

The jurisdiction of the United States District Court for the Middle District of Tennessee was invoked by the filing of a petition for reorganization under §77 of the Bankruptcy Act by Tennessee Central Railway Company on December 14, 1967. We rely on the Statement of the

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3. The District Court held in Petitioner's favor on this question and Judge Weick, dissenting in the denial of the petition for rehearing, concurred.

Case of Petitioner, LOUISVILLE AND NASHVILLE RAILROAD COMPANY, *et al.*, which is set forth in petition No. 71-..... at page 4 with the following additions. Koppers Company, Inc. has submitted a claim of approximately one hundred twenty-one thousand dollars ($121,000) based upon the furnishing of cross ties to the Tennessee Central Railway during the year preceding the petition for reorganization and during the period in which the railroad was on the brink of financial collapse. Cross ties were needed to replace worn out, rotten and otherwise unserviceable cross ties and were absolutely essential for the continued operation of the railroad which was in the public interest, and without them the railroad could not have been sold as a going concern in Bankruptcy Court. Officials of Koppers Company were aware of the precarious financial condition of Tennessee Central Railway and extended credit in reliance on the equitable principle set forth in *Southern R.R.* v. *Flournoy*, 301 F.2d 847 (4th Cir. 1962) which extended priority to certain claims of creditors who had extended credit to a railroad within six months of the railroad's entering into bankruptcy.

This Petitioner also relies on Tennessee Statutes 65-1011, *et seq.* (see this Appendix pages A1-A3) which grant a lien to materialmen who furnish cross ties or other building materials to a railroad. This lien was not perfected by its reduction to judgment, only because of an injunction of the District Court for the Middle District of Tennessee holding all matters regarding the railroad's financial status in abeyance pending disposition of the reorganization proceeding. (See the relevant section of the District Court's Order, this Appendix page A3). The claim of this Petitioner was conceded to be a valid debt. However, if the priority claimed by the United States is sustained, this Petitioner will receive nothing on its claim of $121,051.12.

The District Court held that R.S. 3466 (31 U.S.C. §191) was inapplicable to railroad reorganization proceedings under §77 of the Bankruptcy Act. The Court held this Petitioner was afforded priority under the applicable Tennessee lien statute (and, apparently, that this Petitioner was afforded priority as a six-months creditor as well).

On appeal the decision was reversed. The Court of Appeals held that R.S. 3466 controlled and that the liens of Koppers Company, Inc. were merely general ones, not perfected, and that R.S. 3466 gives priority to the United States. A timely petition for rehearing was denied.

REASONS FOR GRANTING THE WRIT

Comes the Petitioner Koppers Company, Inc. urging that R.S. 3466 (31 U.S.C. §191) is inapplicable to the essentially equitable proceedings[4] of a railroad reorganization under §77 of the Bankruptcy Act and that R.S. 3466 does not now grant a priority to the Government for loans made by the Reconstruction Finance Corporation when this priority was expressly denied by Congress until the recodification of Title 5 of the United States Code in 1966. As to these issues we rely on the Reasons for Granting the Writ as set forth in the Petition of Petitioner LOUISVILLE AND NASHVILLE RAILROAD COMPANY Petition No. 71-..... There the importance of the questions involved is well presented and the need for this Court to settle these questions of federal law is well indicated.

This Petitioner also claims priority over the United States by reason of Tennessee Statutes (Tenn. Code Ann. §§65-1011, -1013, -1016, -1021) (See this Appendix pages A1-A3) which subordinate the mortgage lien of the Government to the lien of Koppers Company, Inc. The District

4. See §77(b) of the Bankruptcy Act (11 U.S.C. 205(b)), this Appendix at page A1.

Court determined that Koppers Company, Inc. was entitled to priority under the applicable Tennessee lien statute, since the underlying principle of a §77 reorganization is that it is an equitable proceeding. The Court of Appeals reversed, holding that the lien of this Petitioner was not perfected by a reduction to judgment and therefore, this Petitioner is relegated to a non-lien position such that the Government has priority under R.S. 3466. But, as the District Court observed, the perfection of the lien by its reduction to judgment was not accomplished due to the injunction of the District Court holding such matters in abeyance until the disposition of the reorganization proceeding. Legal scholars have recognized that a statutory lien may be perfected subsequent to the filing of a petition in bankruptcy. (See 4 *Collier on Bankruptcy*, §67.20 at 213-14). This principle is even more applicable in §77 proceedings, which are equitable in nature.

> "Insofar as §67b of the Bankruptcy Act provides for the validity of statutory liens as well as their perfection, if necessary, after the filing of the petition, it would seem evident that such provision would apply under §77 since there is nothing inconsistent therein with the terms of the latter section . . . ."
>
> 5 *Collier on Bankruptcy*, §77.21 at 569.

In *Mercantile Trust Co.* v. *Tennessee Central Ry.*, 286 F. 425 (1922), the District Court for the Middle District of Tennessee decided that in a reorganization of the Tennessee Central Railway the creditors, under the provisions of Chapter 72 of the Acts of 1877 (now Tenn. Code Ann. §§65-1011, *et seq.*) were entitled to the statutory priorities of the claims were "admitted by the receivers to be due." The claim of Koppers Company was conceded to be a valid debt. This Petitioner submits that the cases relied on by

the Court below in reversing the District Court did not involve railroad reorganization proceedings and thus, did not consider the equitable nature of the proceeding.

The decision of the Court below has determined important questions of federal law. These questions are ones of vital importance to the railroad industry and its creditors. The decision will likely affect the very nature of a §77 railroad reorganization proceeding, and Petitioner respectfully submits that the question should be settled by this Court. Numerous railroads have experienced financial difficulties in recent years and the TENNESSEE CENTRAL experience is neither novel nor is it unlikely that similar situations will arise again. Creditors of railroads understandably will be hesitant to grant the much-needed credit necessary for a railroad's operation of R.S. 3466 is applied to §77 Railroad Reorganization proceedings to the detriment of claims not reduced to judgment and possession. The District Court (J. Miller, Circuit Judge, sitting by designation) and Judge Weick (dissenting in the denial of rehearing) recognized the importance of the equitable nature of §77 proceedings. Judges Edwards and Peck determined that R.S. 3466 applies. This Petitioner respectfully submits that the discretionary jurisdiction of this Court should be exercised to settle these questions which involve important legal and equitable considerations in the implementation of railroad service to the public.

If this Court elects to pass on the question as to the rights of certain creditors under the equitable "Six-Months Rule", this Petitioner also requests that the Court would so indicate to allow Petitioner opportunity to fully brief the issue.

CONCLUSION

For the reasons set forth above and in petition No. 71-....., it is respectfully submitted that this petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

Pertinent Statutory Provisions

We rely on the Appendix of Petitioner LOUISVILLE AND NASHVILLE RAILROAD COMPANY, *et al.*, petition No. 71-..... for the listing of some of the pertinent statutory provisions with the following additions:

Section 77 (*b*) of the Bankruptcy Act (11 U.S.C. 205 (b)) — . . . For all purposes of this section unsecured claims, which would have been entitled to priority if a receiver in equity of the property of the debtor had been appointed by a federal court on the day of the approval of the petition, shall be entitled to such priority and the holders of such claims shall be treated as a separate class or classes of creditors . . . .

R.S. §3466 (31 U.S.C. 191)—Whenever any person indebted to the United States is insolvent, or whenever the estate of any deceased debtor, in the hands of the executors or administrators, is insufficient to pay all the debts due from the deceased, the debts due to the United States shall be first satisfied; and the priority established shall extend as well to cases in which a debtor, not having sufficient property to pay all his debts, makes a voluntary assignment thereof, or in which the estate and effects of an absconding, concealed, or absent debtor are attached by process of law, as to cases in which an act of bankruptcy is committed.

65-1011, T.C.A. Lien of subcontractors, laborers, materialmen or other persons.—Every subcontractor, laborer, materialman, or other person who performs any part of the work in grading any railroad company's roadway, or who constructs or aids in the construction or repairs of its culverts and bridges, or furnishes cross-ties or masonry or

bridge timbers for the same, which is used in the building and construction of such railroad, its bridges and culverts, or who lays or aids in the laying of its track, building of its bridges, the erection of its depots, platforms, wood or water stations, section houses, machine shops, or other buildings, or for the delivery of material for any of these purposes, or for any engineering or superintendence, or who performs any valuable service, manual or professional, by which any such railroad company receives a benefit, all and every such person or persons at election shall have a direct lien on such railroad, its franchises and property, for the value of such work and labor done or material furnished or services rendered as hereinbefore set out and specified, in as full and ample a manner as is provided by §65-1001 for persons contracting directly with such railroad company for any such work and labor done or for materials furnished. [Acts 1891, ch. 98, §1; Shan., §3580; mod. Code 1932, §8002.]

65-1013, T.C.A. Duration of lien of subcontractors, laborers, materialmen and other persons.—Said lien shall continue for the space of one (1) year from the service of said notice, and until the termination of any suit, commenced for the enforcement within said one (1) year; and said lien shall have priority over all other liens on such railroad, its property and franchises. [Acts 1891, ch. 98, §1; Shan., §3582; mod. Code 1932, §8004.]

65-1016, T.C.A. Contractors, subcontractors, laborers, materialmen and other persons—Priority of lien.—No railroad company shall have power to give or create any mortgage or other kind of lien on its railroad, its property or franchises, in this state, which shall be valid and binding against any judgments or decrees, or execution issued thereon, rendered in any of the courts in this state, for the enforcement of any liens provided for in §§65-1001—65-1017; nor shall the liens created by §65-1011 be hindered,

postponed, delayed, or defeated by any contract, real or pretended, made by any railroad company with any principal or construction company, real or pretended. [Acts 1891, ch. 98, §4; Shan., §3585; Code 1932, §8007.]

65-1021, T.C.A. Judgments for timbers, work, or damages to person or property—Priority over mortgage or other lien.—No railroad company shall have power to give or create any mortgage or other kind of lien on its railway property in this state, which shall be valid and binding against judgments and decrees, and executions therefrom, for timbers furnished and work and labor done on, or for damages done to persons and property in the operation of its railroad in this state. [Acts 1877, ch. 12, §3; 1877, ch. 72, §3; Shan., §1530; Code 1932, §2587.]

United States District Court For The Middle District of Tennessee, Nashville Division, ORDER, Dec. 14, 1967

....

All persons, firms, and corporations, whatsoever and wheresoever situated, located, or domiciled, be, and they are hereby, restrained and enjoined from interfering with, attaching, garnisheeing, levying upon, or enforcing liens upon, or in any manner whatsoever disturbing any portion of the assets, goods, money, railroads, property, or premises belonging to, or in the possession of the debtor, or from taking possession of, or in any manner interfering with the same, or any part thereof, or from interfering in any manner with the operation of its railroad or properties or the carrying on of its business by the debtor under the orders of this court, or from bringing any new suits, actions, or proceedings on causes of action accruing prior to this date in or before any court, commission or tribunal from which an appeal, or proceedings to review, can be taken only upon the filing of an appeal bond as a jurisdictional or mandatory requirement.

INDEX

	Page
Opinions below	1
Jurisdiction	2
Questions presented	2
Statement	3
Argument	5
Conclusion	11

CITATIONS

Cases:

Massachusetts v. *United States*, 333 U.S. 611	8
Small Business Adm'n v. *McClellan*, 364 U.S. 446	8
United States v. *Emory*, 314 U.S. 423	9
United States v. *Guaranty Tr. Co.*, 280 U.S. 478	8
United States v. *Key*, 397 U.S. 322	5, 6, 7
United States v. *Remund*, 330 U.S. 539	8
United States v. *Texas*, 314 U.S. 480	8
United States v. *Waddill Co.*, 323 U.S. 353	8
Wagner v. *McDonald*, 96 F. 2d 273	10

Statutes:

Bankruptcy Act, 30 Stat. 544, as amended, 11 U.S.C. 1 *et seq.*:	
Section 77, 11 U.S.C. 205	2, 3, 5, 6, 7, 8
Section 77(b), 11 U.S.C. 205(b)	7
Section 77(n), 11 U.S.C. 205(n)	7

Statutes—Continued Page

R.S. 3466, 31 U.S.C. 191 ..... 3, 5, 6, 7, 8, 9, 10
Reorganization Plan No. 1 of June 30, 1957 (71 Stat. 647):
Section 2(d)(1) 8
Section 3 8
Section 6 8
80 Stat. 632, Section 8 9
15 U.S.C. (1964 ed.) 603 ..... 8, 9
Tennessee Code Anno., Section 65-1021 5

Miscellaneous:

H. Rep. No. 901, 89th Cong., 1st Sess. 9

In the Supreme Court of the United States

OCTOBER TERM, 1972

Nos. 71-1680, 72-21, 72-24, 72-62

IN THE MATTER OF TENNESSEE CENTRAL RAILWAY COMPANY, ET AL., PETITIONERS

v.

A. BATTLE RODES, TRUSTEE OF TENNESSEE CENTRAL RAILWAY COMPANY, ET AL.

ON PETITIONS FOR WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals is not yet reported (R.R. Pet. App. 1-20).[1] The opinion of the district court is reported at 316 F. Supp. 1103 (R.R. Pet. App. 21-46).

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[1] "R.R. Pet. App." reference is to the Appendix to the petition filed by the railroads in No. 71-1680.

JURISDICTION

The judgment of the court of appeals was entered on February 2, 1972 (R.R. Pet. App. 1-15). A timely petition for rehearing was denied on April 4, 1972 (R.R. Pet. App. 53). The petitions for writs of certiorari were filed on June 23, 1972, in No. 71-1680, on July 1, 1972, in No. 72-21, on July 3, 1972, in No. 72-24, and on July 11, 1972, in No. 72-62. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. (a) Whether the federal statute giving the United States priority in insolvency proceedings for the debts due to it is applicable in a proceeding under Section 77 of the Bankruptcy Act.

(b) If it is, whether the statute is applicable to a claim of the United States, transferred from the Reconstruction Finance Corporation, which was not entitled to the priority of the United States at the time the loan was made.

2. If the statute is not applicable, whether the claims of "six months" creditors, asserting interline accounts and the furnishing of supplies and services to the railroad before it was placed in reorganization, are entitled to priority in payment ahead of the mortgage bondholders where no current income was diverted to the bondholders.

STATEMENT

The Tennessee Central Railway Company ("the debtor") is in reorganization under Section 77 of the Bankruptcy Act (11 U.S.C. 205); it ceased operations after selling its lines to other carriers. Petitioners are certain of the Tennessee Central's creditors: they are railroads, local government units, and industrial companies. The United States claims priority to the remaining assets of the debtor railroad under the federal insolvency statute (R.S. 3466, 31 U.S.C. 191) and as holder of all of the debtor's first mortgage bonds.

In December 1967, the debtor was placed in reorganization and a trustee was appointed. For several years before the debtor had operated at a loss; its income was insufficient to pay the costs of operation and no payment was made on the fixed charges. The debtor's losses steadily increased during this period from about $204,000 in 1963 to about $1,680,000 in 1967. The total loss during this 5-year period was about $4.5 million (J. App. 30).[2]

At the time the debtor was placed in reorganization, it was in default in the payment of interest on its bonded indebtedness, in payment of its equipment trusts, taxes due to various county and municipal authorities, the payment due to other railroads on interline accounts and per diem charges, and to suppliers. This situation had existed for more than six

[2] "J. App." reference is to the Joint Appendix filed in the court of appeals.

months prior to the commencement of reorganization. As a result of its failure to pay its interline accounts with other railroads, the debtor either had been placed on a pre-payment basis (requiring payment before a connecting carrier would accept shipments, contrary to the ordinary practice) or was in the process of being put in that situation by the other carriers, at the time it was placed in reorganization.

Subsequent to being placed in reorganization, the debtor had no operating profit and was able to continue operation only through the sale of certain assets. This condition continued until August 31, 1968, when the debtor ceased all operations.[3]

The primary claim of the United States arises from two loans to the debtor made by the Reconstruction Finance Corporation ("RFC") and transferred to the Secretary of the Treasury when the RFC was abolished in 1957. At the time the debtor went into reorganization, it owed the United States more than $5,200,000 on these loans.[4]

The railroad petitioners seek recovery for interline claims totalling approximately $900,000, which accrued within the six months before the reorganization petition was filed. The local governments seek recovery of back taxes for periods prior to the filing of the reorganization petition totalling about

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[3] The remaining assets of the debtor, consisting of cash and property, totalled approximately $3 million; the claim of the government was more than $5 million.

[4] The United States also has freight damage, loss and overcharge claims totalling about $60,000.

$105,000.[5] The Koppers Company claims approximately $121,000 based upon the furnishing of crossties, and relies both upon the equitable principle giving priority in certain situations to claims that accrued within six months before receivership, and upon the Tennessee Code Anno. Section 65-1021, which grants priority to certain suppliers of a railroad. Humble Oil also has a claim under the "six months" rule for diesel fuel supplied to the debtor.

The district court held that R.S. 3466 is inapplicable in a Section 77 proceeding and that the interline carriers, suppliers and local taxing authorities have priority over the claim of the United States based on its mortgage bonds (R.R. Pet. App. 21-44). A divided court of appeals reversed (R.R. Pet. App. 1-15). Relying on *United States* v. *Key*, 397 U.S. 322, it ruled that the United States has priority in a Section 77 railroad reorganization proceeding under R.S. 3466 for debts due it over the other claimants involved herein.

ARGUMENT

The principal issue raised by petitioners—whether the priority of the United States under R.S. 3466 applies in railroad reorganizations under Section 77 of the Bankruptcy Act—is settled by *United States* v. *Key*, 397 U.S. 322. The other issues are of little general and even less prospective importance. The

[5] Petition No. 72-62 was filed by Wilson County, Tennessee, after the 90 day jurisdictional time limit applicable in civil cases.

Reconstruction Finance Corporation was abolished 15 years ago, and the two RFC notes involved here are the only ones still outstanding which evidence loans to railroads.

To prevail, petitioners must establish (1) that the United States' insolvency priority under R.S. 3466 is not applicable in railroad reorganization proceedings under Section 77 of the Bankruptcy Act, and (2) that they are within the class of unsecured creditors accorded an equitable priority as "six months creditors," or are otherwise entitled to a priority over the secured government claims. If petitioners fail on either ground, their claims cannot be sustained. The court below rejected petitioners' first contention and thus did not reach the second issue. We submit that this disposition of the case was correct. As noted in footnote 10, *infra*, however, we also believe petitioners' arguments with respect to the second issue are without merit.

1. Section 3466 of the Revised Statutes provides that in the case of an insolvent estate any debts due to the United States shall be "first satisfied." This priority was recently upheld by this Court in a Chapter X reorganization proceeding. The Court noted that Section 77 served as a model for Chapter X, and that "[n]othing in § 77 casts any doubt on the continued priority of the United States under § 3466." *United States* v. *Key*, 397 U.S. at 330. The Court concluded that "§ 3466 must apply according to its terms except where expressly superseded, or where excluded by a later enactment 'plainly inconsistent' with it." (*Id.* at 332).

To support their contention that R.S. 3466 is not applicable in a Section 77 proceeding, petitioners rely on Section 77(b), which provides:

> For all purposes of this section unsecured claims, which would have been entitled to priority if a receiver in equity of the property of the debtor had been appointed by a Federal court on the day of the approval of the petition, shall be entitled to such priority and the holders of such claims shall be treated as a separate class or classes of creditors.[6]

As the court of appeals recognized (R.R. Pet. App. 5), "[t]he difficulty with [petitioners'] argument is that section 77(b) contains no language arguably referring to or superseding the effect of § 3466." That court correctly interpreted the *Key* decision as holding that such an intention is not inferable from generalized provisions or rules dealing with priority in bankruptcy. Instead, these provisions are to be read consistently with R.S. 3466 as allocating the priorities among all creditors except the government. This Court's analysis of the legislative intention also required the result reached below.[7]

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[6] Aside from Section 77(n), pertaining to claims of injured employees, this is the only provision in Section 77 pertaining to priorities.

[7] Petitioners point out that the Court in *United States* v. *Key* was referring to the original Section 77, and not necessarily to Section 77, as amended in 1935 (R.R. Pet. 13-14). However, this Court's statements are fully applicable to the amended Section 77, since nothing in the amendments, nor in the legislative history, suggests any intention to alter the established priority of the United States under Section 3466. Compare this Court's comments with respect to the enactment in 1934 of Section 77B. See 397 U.S. at 331.

2. In addition to contending that R.S. 3466 is never applicable in a Section 77 proceeding, petitioners urge that R.S. 3466 does not apply because the claim of the United States is based upon RFC loans.[8] Petitioners point out that, when the loans were made, the RFC did not have the priority of the United States under R.S. 3466. See 15 U.S.C. (1964 ed.) 603. When the RFC was abolished effective June 30, 1957, by Reorganization Plan No. 1, however, this loan was transferred to the Secretary of Treasury, who has administered the loan since then (J. App. 294).[9] Thus,

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[8] With regard to the RFC aspect of the case, petitioners rely on *United States* v. *Guaranty Tr. Co.*, 280 U.S. 478. While that case has never been explicitly overruled, it is inconsistent with numerous subsequent decisions of this Court in addition to the *Key* case discussed above. See *Massachusetts* v. *United States*, 333 U.S. 611, 624-629; *United States* v. *Remund*, 330 U.S. 539; *United States* v. *Texas*, 314 U.S. 480; *United States* v. *Waddill Co.*, 323 U.S. 353; *Small Business Adm'n* v. *McClellan*, 364 U.S. 446.

[9] Reorganization Plan No. 1 of June 30, 1957, Section 2(d)(1), transferred to the Secretary of the Treasury all of the functions of RFC with respect to or arising out of "programs of financial assistance to railroad companies * * *" (J. App. 297). Section 3 of the plan entitled "Transfer of assets and liabilities" provided that "The loans, obligations, securities, capital stock, and other assets pertaining to the functions transferred by section 2 of this reorganization plan (including accrued interest thereon, and property acquired in connection therewith) and the liabilities, contracts, bonds, mortgages, notes and other instruments relating thereto are hereby transferred from the Corporation to the respective transferees" (*Ibid.*). Section 6 of the Reorganization Plan abolished the Corporation as of June 30, 1957. Since that date, the Department of the Treasury has uniformly treated all debts and obligations as owing to the United States of America.

ten years before petitioners' claims arose, the RFC loan became a claim of the United States. Any recovery on this claim will be deposited in the United States Treasury, and any non-payment is a direct loss to it (J. App. 296).

Even if the derivation of the claim were pertinent, the statute eliminating the RFC's priority was repealed prior to the transactions upon which the competing creditors base their claims. On September 6, 1966, the provision in 15 U.S.C. 603 was repealed, because it was obsolete. H. Rep. No. 901, 89th Cong., 1st Sess., p. 390.

This legislation further provided in Section 8 (80 Stat. 632):

> The laws specified in the following schedule are repealed except with respect to rights and duties that matured, penalties that were incurred, and proceedings that were begun, before the effective date of this Act * * *.

Since none of the petitioners' claims had arisen at the time of the repeal of 15 U.S.C. 603 in 1966, no rights and duties had matured, no penalties had been incurred and no proceedings had begun with respect to this statute. Thus, when petitioners' claim accrued, these loans had the same status as any other claims held by the United States.

Moreover, the source of a claim of the United States is not determinative of the applicability of R.S. 3466. See *United States* v. *Emory*, 314 U.S. 423, where the United States had acquired its claim from a private bank, which had no priority, under a gov-

ernment-guaranteed loan. The government was nevertheless held entitled to priority under R.S. 3466. See also *Wagner* v. *McDonald*, 96 F.2d 273, 275 (C.A. 8):

> Neither is there merit in the first contention; that, because the right of priority did not attach to the notes in the hands of the bank when they were executed, the attribute of priority was not created when they became the property of the United States. Under section 3466, priority of payment does not depend upon how the United States acquired title to the notes, nor upon their status prior to their transfer. Priority is the result of insolvency of the debtor and ownership of the claim by the United States.[10]

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[10] The petitioners' claim of priority over the government as "6 months" creditors was not reached by the court below and not discussed by petitioners. Therefore, no extended refutation of that claim is appropriate. However, under the particular facts of this case the claim is without merit, since there is no fund to which "6 months" creditors can look for payment, and the equitable considerations under which they might establish priority in the absence of such a fund are not present.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the petitions for writs of certiorari should be denied.

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